

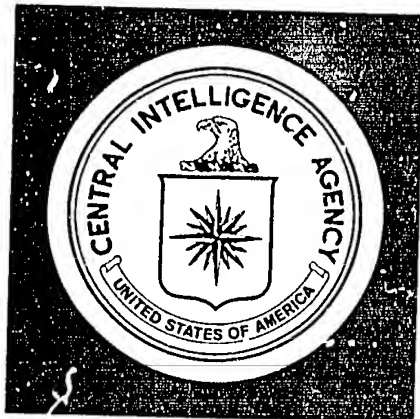
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Weekly Review

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3 May 1974

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CONTENTS May 3, 1974

The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

- 1 The Middle East: On the Syrian Front
- 3 France: Mitterrand, Giscard
Lead Campaign
- 4 Portugal: Junta Consolidates Power

**EAST ASIA
PACIFIC**

- 6 Laos: The Honeymoon Wanes
- 7 Cambodia: Fighting Flares

25X6 25X1

**MIDDLE EAST
AFRICA**

- 9 Egypt: Cabinet Shuffle; Fanatics
- 10 Pakistan-France: Arms Bargaining

- 11 South Africa: New Mandate
- 12 Ethiopia: Still in Flux

25X6

EUROPE

25X6

25X1

- 16 The Reluctant Comrades
- 17 USSR: Soviet Banks

**WESTERN
HEMISPHERE**

25X1

- 18 Venezuela: Economic Changes
- 19 Costa Rica: Rough Sledding Ahead

- 20 Brazil Pursues Chinese Market
- 21 UN: Special Session on Resources

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The Middle East

ON THE SYRIAN FRONT

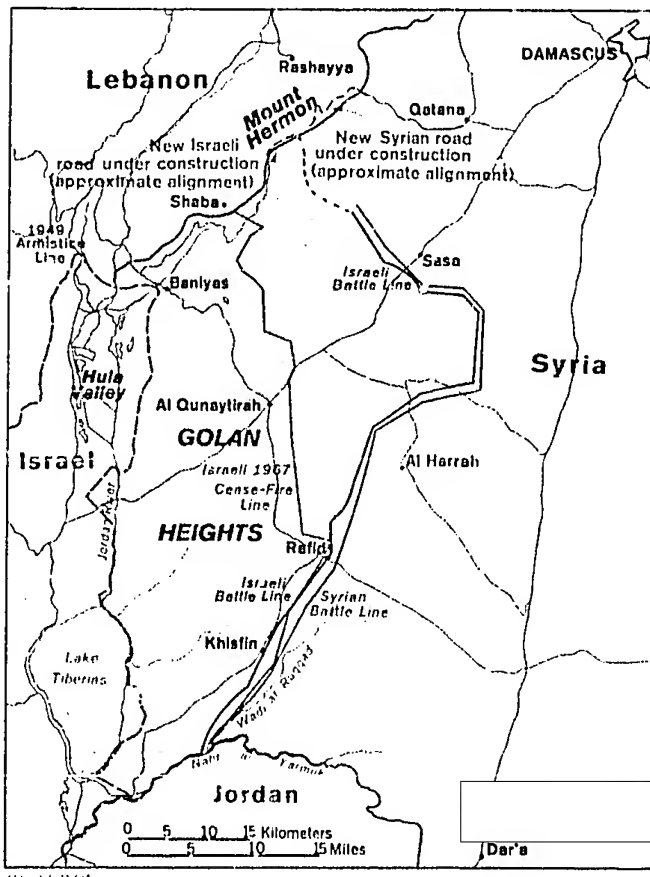
Fighting on the Syrian front was generally moderate during the past week, although both Israeli and Syrian aircraft were active over the battlefield. Mount Hermon was again the focal point, as both sides battled for control of the dominant peaks. Tel Aviv announced last week that 40 Israeli soldiers have been killed and 99 have been wounded on the Syrian front since the cease-fire in October.

Israeli aircraft attacked Syrian targets on the slopes of Mount Hermon for three days in a row early in the week. The attacks apparently were aimed at keeping the Syrians from completing a road to the top of the mountain. Israel already has completed a road near the ridge line on the

western slope of the mountain. Both the Syrian and Israeli roads appear to cross over into Lebanese territory.

Syrian aircraft also were active, striking at Israeli positions in the area of the mountain on two occasions last week. The second attack culminated in a dogfight in which at least two Syrian MIG-21s were shot down. The Israelis have acknowledged no losses in the air battle.

According to the Lebanese Defense Ministry, Israeli and Lebanese units exchanged artillery fire in southern Lebanon for two hours on April 30. Beirut claimed that the Israelis attempted to occupy positions near Shaba, but were forced to withdraw under Lebanese pressure. This claim, which was denied by the Israelis, almost certainly was exaggerated in order to quiet critics of Prime Minister Sulh's government.



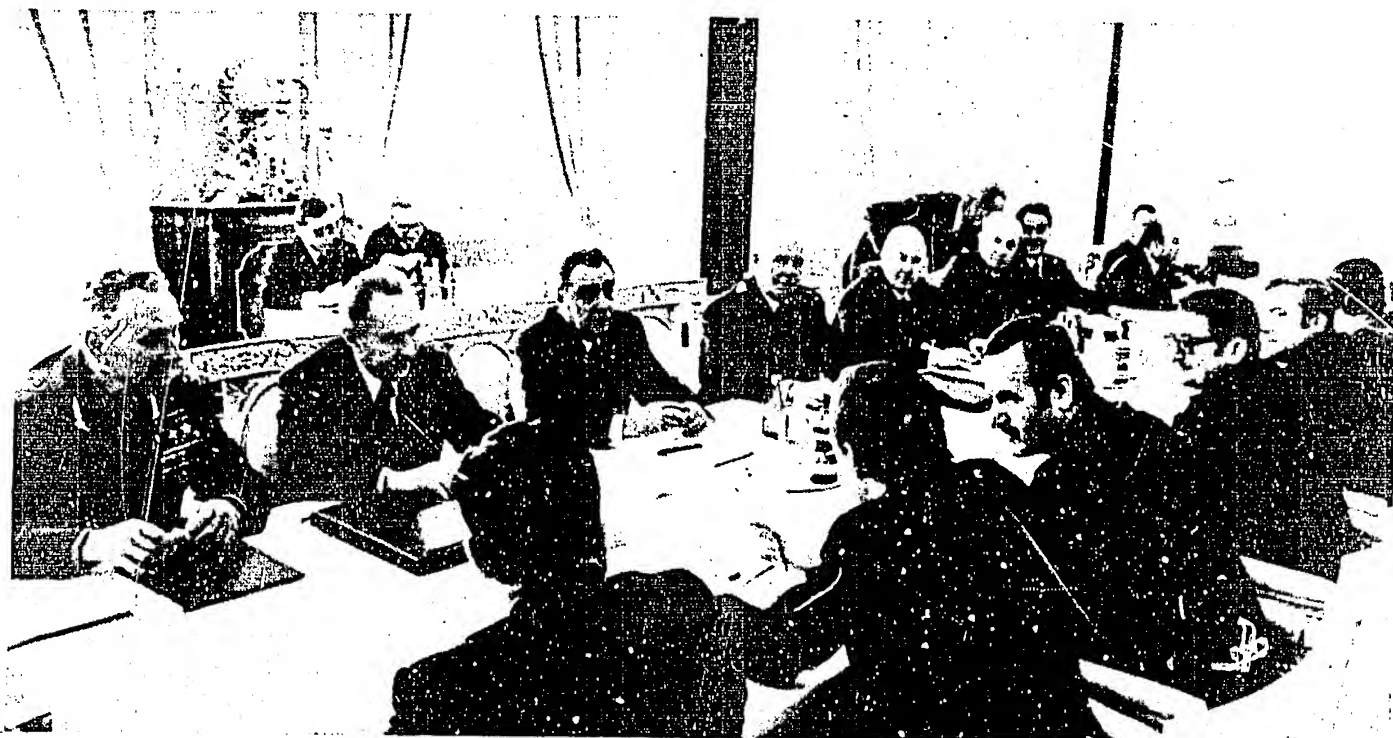
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SOVIET DIPLOMACY

Despite Foreign Minister Gromyko's agreement with Secretary Kissinger in Geneva to exercise joint influence toward a "positive outcome" in the Middle East, the Soviets still see American efforts to promote Syrian-Israeli disengagement as a threat to their continued influence in the area. The almost total Soviet silence concerning Secretary Kissinger's latest travels in the Middle East is indicative of Moscow's sensitivity to the US initiatives.

The Soviets may well try to give the appearance that they are playing a significant role in the current negotiations. Syrian officials have stated, for example, that Gromyko will visit Damascus in the near future. The Soviets, however, continue to assert that Geneva is the proper venue for settling the Middle East conflict.

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Asad conferring in Moscow with Soviet leaders

Strong Backing for Syria

During Syrian President Asad's recent visit to Moscow, the Soviets apparently urged him to take a tough position with Israel and assured him of substantial additional economic and military support.

antees that would encourage Syrian adventurism and limit the USSR's maneuvering room in a crisis.

Moscow hopes that its strong support will solidify its position in Damascus and forestall a US-negotiated disengagement agreement that leaves the USSR out in the cold. The Kremlin probably expects that, at a minimum, its backing will enable it to claim some credit for any Syrian negotiating success.

Lowered Voices With Egypt

Soviet-Egyptian polemics have died down since President Sadat announced on April 18 that he intended to break Egypt's dependence on the USSR for military equipment. Since then, Sadat and Brezhnev have exchanged letters discussing their differences. These messages, whose contents have not been publicized, may have raised the subject of a summit visit, but neither party appears willing to lose face by trekking to the other's capital.

The Soviets, however, probably avoided giving Asad any iron-clad guar-

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France

MITTERRAND AND GISCARD LEAD

As the first round of presidential campaigning ends, Francois Mitterrand, the sole candidate of the left, is the clear front-runner. The obstacles to his winning a first-round victory are still formidable, however, so that a run-off between Mitterrand and Independent Republican Giscard d'Estaing is the likely outcome of the balloting on May 5.

Caullist candidate Jacques Chaban-Delmas, whose campaign never caught on, appears virtually out of contention. His backers had hoped to boost his showing in the polls by getting Gaulist maverick Jean Royer to withdraw, but Royer refused to quit.

The latest polls show that Giscard has gained support not only among pro-Chaban voters but also among those who initially preferred Royer. Giscard had seemed to be most vulnerable on his management of the economy over the past decade, and his two major rivals hit hard on his role as economics and finance minister. The voters, however, do not seem to be holding Giscard personally responsible for France's economic problems.

Mitterrand has been campaigning effectively despite mutual suspicions between Socialists and Communists, and he will easily win a place in the run-off. In order to gain the absolute majority needed to win outright on Sunday, however, Mitterrand would have to improve considerably on the left's best previous first-round showing.

In previous elections under the present system, no presidential candidate has achieved a first-round victory. De Gaulle and Pompidou, the front-runners in those races, won only slightly more than 44 percent in the first ballot.



Mitterrand



Giscard d'Estaing

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The best first-round performance by the left, in the legislative election in 1967, was just over 43 percent of the votes; it has never topped 47 percent. In both the 1969 presidential race and the 1973 legislative election, opinion polls just before the first-round election day over-estimated the percentage of left votes by 3 to 4 points. Mitterrand's current rating is 43 percent.

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Portugal

JUNTA CONSOLIDATES POWER

The seven-man junta headed by General Antonio de Spínola, which assumed leadership in Portugal after the almost bloodless coup last week, has already issued decrees designed to restore domestic liberties and consolidate its power. Political groups, labor unions, and student associations, which had been quiescent under the previous government, have become active. If the junta is willing to include representatives of both the left and right in the provisional government—to be established within two weeks—and is able to persuade them to join, this would augur well for the stability of the country over the near term.

General Spínola met earlier this week with representatives of various political parties that were illegal under the previous regime. A spokesman for the parties described the meeting as very cordial, but the moderates appeared to be more satisfied than the far leftists. The leftists were disappointed that Spínola refused to consult with them on the formation of the government and that he refused to make a commitment on immediate decolonization.

Political groups are busily organizing, issuing manifestos, and collecting funds. Socialist leader Mario Soares and Communist Party leader Alvaro Cunhal are playing prominent roles following their triumphant return from exile. Both parties have participated in the formation of a leftist coalition, the Portuguese Democratic Movement, to serve as a vehicle for participation in the new government. This would comply with Spínola's announcement that he favors broad coalitions

rather than many parties. The union may be short-lived, however, as Soares has stated privately that he is concerned by competition from the well-organized Communist Party. Soares is working to build his own party's strength, and probably stands a better chance than Communist leader Cunhal of getting a ministerial post in the provisional government.

In an attempt to reform the state-controlled universities, the junta has dismissed their rectors. Student associations previously closed down by the Caetano government are reopening, and campus political activity appears to be on the rise.

The labor organizations that were formed by the ousted regime are also undergoing changes. In Lisbon and Oporto, leaders foisted upon the organizations by the previous government are being fired and workers are electing new leaders.

In an effort to consolidate his power within the military Spínola has reinstated General Francisco da Costa Gomes, also a member of the junta, in his previous job as chief of staff of the armed forces. Costa Gomes, who had approved the publication of Spínola's book, was fired from his job in March, ostensibly for refusing to take a ceremonial oath of allegiance to the old regime. Three other junta members have taken over as chiefs of staff of the air force, army, and navy. The junta has retired 24 senior officers, including two former ministers and the ex - chiefs of staff, thereby eliminating a potential threat from senior officers who have remained faithful to the Caetano government.

Generals Gomes and Spínola, and Captain of the Navy Pinheiro



THE IMPACT IN PORTUGUESE AFRICA

The Spinoia junta is being widely supported by the Portuguese power structures in all three African territories. Civilian and military administrations are being run, on an interim basis, by the deputies to the governors general and the military commanders that were relieved of their responsibilities shortly after the coup. The transition has been largely without incident.

The idea of greater autonomy for the territories is a popular one, particularly in Angola and Mozambique, which have sizable white settler populations that have long wanted less interference from the metropole. Politically, however, Lisbon faces a problem stemming from the former government's refusal to allow local political organizations. The new regime will now have to permit the emergence of such organizations, broadly multi-racial in composition, if its new African policy is to have any meaning. One group in Mozambique that had been accepted by the Caetano government as a cultural organization has since the coup openly avowed political ambitions.

The ouster of Caetano has been welcomed by Portuguese Africa's liberation movements and by the black African governments that have been supporting them through more than a decade of insurgency. The guerrilla groups have rejected Spinoia's federation concept, however, and have reiterated their demands for complete independence. For the time being, they are likely to adopt a wait-and-see attitude.

In deciding future policy, Lisbon will have to take into account the quite different military and political situations that prevail in the three territories. In Angola, three rival insurgent organizations, each with serious factional, recruiting, or logistic problems, have failed to gain even minimal territorial control. It seems unlikely that Lisbon will be ready to negotiate with any of these groups in the near future.

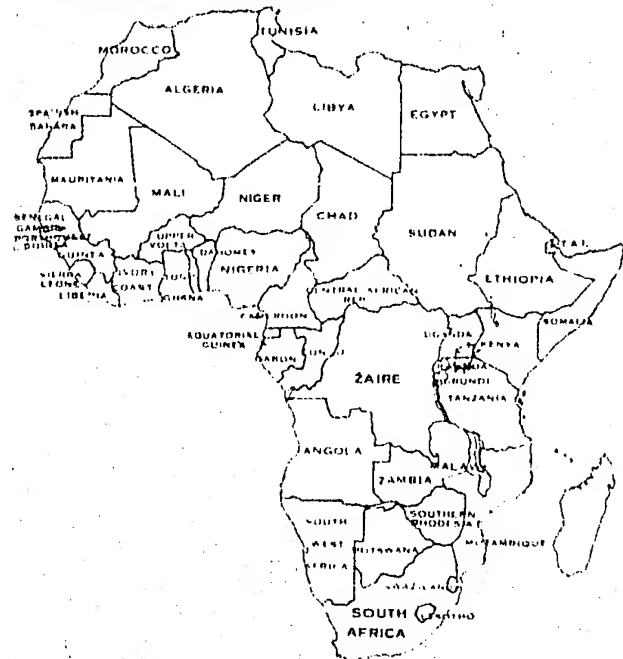
In Mozambique, the insurgents are unified, and their activity has been on a modest upswing

since the first of the year, marked by a slow but steady southward infiltration. Their military effort could be enough to press Lisbon into eventually opening a dialogue.

In Portuguese Guinea the military stalemate that developed convinced Spinoia during his five years as governor general of the futility of seeking a military solution. The African Party for the Independence of Portuguese Guinea and Cape Verde consistently has waged the strongest military and political effort of all the African insurgent organizations. Last September, the party proclaimed the "Republic of Guinea-Bissau," which is now recognized by more than 60 Communist, African, and other Third World countries as well as by the Organization of African Unity. The "republic" has been granted observer status in the UN and intends to push for membership at the next UN General Assembly. Although the African party's territorial claims are inflated, it may be the first of the liberation movements to gain political concessions from Lisbon.

Portuguese Africa

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LAOS: THE HONEYMOON WANES

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The new coalition government in Vientiane completes its first month in office this weekend with little to show in the way of tangible accomplishments. Since the coalition was invested on April 5, both sides have been preoccupied with ceremonial functions and bureaucratic adjustments. The few cabinet meetings have avoided dealing in depth with any of the controversial problems involved in the implementation of the Lao accords.

The aura of relative good will is beginning to dissipate, however, as the status of the National Assembly shapes up as a major political dispute. The heart of the problem is the Communists' insistence that the assembly is now an illegally constituted body whose functions, including approval of the national budget, have been shifted by the Lao accords to the advisory political council—chaired by Lao Communist leader Souphanouvong. The accords, in fact, neatly skirt the issue of the assembly's future as well as its relationship to the council.

Souphanouvong ignored the assembly in his speech on the occasion of the council's first meeting on April 25. He emphasized that the council and the coalition government are "two equal and independent supreme state organs," that the council's important task is to cooperate closely with the government in running "all the kingdom's affairs," and that the council would soon draw up a "common political program" to present to the government.

Souvanna cannot allow the problems associated with the assembly to undermine the coalition arrangements. He has already made it clear that he would not welcome any statements or actions by assembly deputies that could antagonize the Communists. Given the latter's growing concern over the assembly issue, Souvanna will have to draw on all his political skills to avoid a serious confrontation between the two sides.



Souphanouvong greeting well wishers

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CAMBODIA

Fighting Flares

The Khmer Communists attacked the provincial capital of Prey Veng east of Phnom Penh this week on schedule. Cambodian Army defenders were anticipating the assaults, repulsed them, and inflicted substantial casualties on the insurgents. The Communists, who have been preparing for the Prey Veng campaign for over a month, can be expected to keep pressure on the city.

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Closer to Phnom Penh, Communist forces capitalized on relatively weak government

defenses along the Bassac River seven miles south-east of the capital to move within mortar and recoilless-rifle range of the city's southern suburb. Late in the week, the Cambodian Army high command belatedly moved to counter this threat by shifting units from less-active fronts around the city.

North of Phnom Penh, a 2,000-man government garrison abandoned the town of Sala Lek Pram on Route 5 and moved south to join government units at Lovek. There are now nearly 5,000 troops and 40,000 civilians at Lovek. The consolidation of forces there will facilitate resupply operations, but Lon Nol's decision to maintain the isolated and militarily insignificant base is questionable. At mid-week, Communist gunners were hitting Lovek with 105-mm. howitzer fire and ground units were closing in on several sides.

On the brighter side for the government, the insurgent drive against the southwestern provincial capital of Kampot appears spent. Cambodian Army troops have been unopposed as they pushed out from the city in all directions.

In the near future, the Cambodian Navy is expected to resume resupply operations at Kampot, which has been cut off from the sea for almost a month.

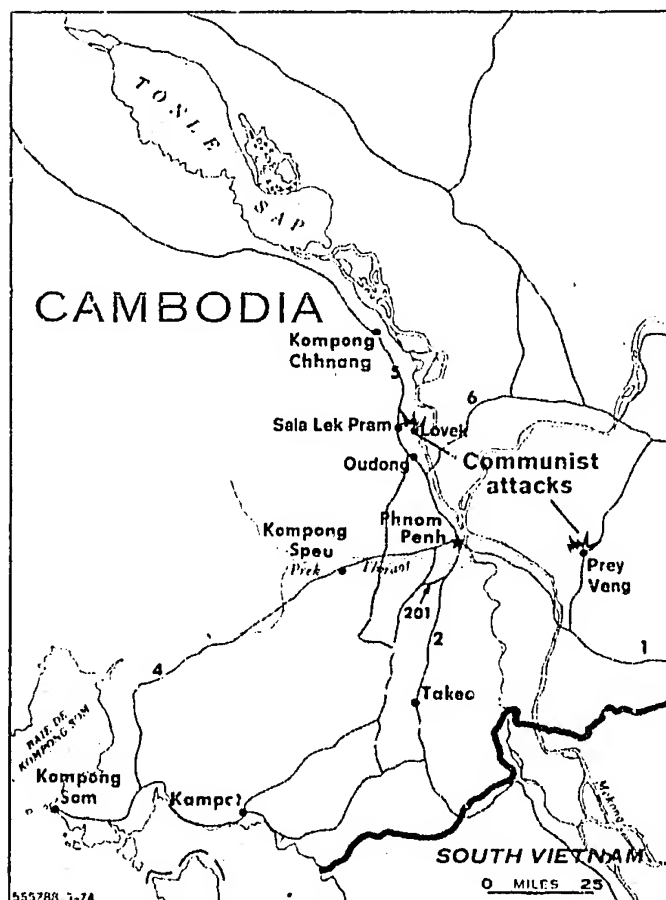
Samphan's Travels

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Khmer Communist "defense minister" Khieu Samphan was in Belgrade and Bucharest this week on his tour of Eastern Europe and Africa. Samphan began his trip with a short visit to Albania, where he restated his demand that the US withdraw all personnel and assistance from Cambodia and let the Khmer solve their own problems.

Samphan's extended absence from Cambodia at this time suggests that the actual responsibility for conducting the war rests in the hands of other Khmer Communist leaders.

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EGYPT

CABINET SHUFFLE

President Sadat carried through with his long-awaited cabinet reorganization last week. Although he made a bow to the continuing "confrontation" with Israel by retaining the prime ministership himself, he has openly labeled the new cabinet as one that will lead the nation during the period of reconstruction and development.

Sadat created a new post of first deputy prime minister, and named to it former economy minister Hijazi, who has been the man most closely identified with Egypt's liberalized economic policy and the plans for reconstruction. Hijazi will be, in effect, the prime minister. He had initially been slated for that post when Sadat was considering cabinet reorganization plans last January. At that time, however, Sadat was criticized for seeming to be abandoning the "battle" by giving up the prime ministership he assumed in March 1973 to consolidate plans for the war.

The remainder of the 35-member cabinet is little different from its unwieldy predecessor, but Sadat and Hijazi have created a super-cabinet of sorts that is intended to concentrate on the government's development tasks and streamline its operations in this field. The new body consists of four ministerial committees that will coordinate policy implementation between the cabinet and a series of specialized advisory councils. The committees are functional and combine the responsibilities of several ministries. Although the effort to eliminate red tape sounds efficient on paper, the new system could in fact prove to be more cumbersome than the old.

TROUBLE WITH FANATICS

Egyptian authorities remain edgy in the wake of the abortive attack two weeks ago on a Cairo military academy, which they say was intended as the first stage of a coup against President Sadat by Libyan-backed Muslim fanatics. Although the government claims the plot had

little support, the shrill publicity given to the affair suggests real concern over the plot's possible domestic ramifications, as well as an intent to force a showdown with Libya.

According to government accounts, 11 persons were killed and 27 wounded in the attempt to take over the Egyptian Army's engineering school on April 18. Cairo has charged a Palestinian, who has a checkered history of affiliation with a variety of Arab organizations, with being the ringleader of the group. He is said to have met in Libya last year with President Qadhafi to discuss the formation of commando units in various Arab countries and to have recruited some Egyptian students for what they believed was a politico-religious organization. Although the government contends that most of the youths dropped out when they discovered the group's real aims, Cairo acknowledges that 80 conspirators are now under arrest. The charges filed against them carry the death penalty.

Although President Sadat does not appear to be in any immediate danger, the incident has revealed a susceptibility among Egyptian youth to the appeal of a religious fanaticism reminiscent of the old Muslim Brotherhood, a tendency that is surely disturbing to the regime. A few weeks earlier, students and religious leaders at Al-Azhar University had demonstrated against a new law that religious conservatives believe is too liberal. This incident reflected a degree of Islamic orthodoxy that apparently surprised the government. Last week, in a further indication of religious conservatives' readiness to back their sentiments with action, a large group demonstrated at a mosque against the government's suspension of an imam—a former Muslim Brotherhood activist—who is under investigation for his possible complicity in the coup.

The evidence for Libyan involvement in not firm

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Nonetheless, the parallel between President Qadhafi's conservative Islamic philosophy and the sentiments of Egypt's religious fundamentalists is striking, and the Egyptians may genuinely fear, even in the absence of real evidence, that Tripoli is encouraging the fundamentalists.

The anti-Libyan propaganda that Cairo has put out on the affair has taken on an indignant tone, and Tripoli's counter-propaganda is only slightly less insulting. The two have also traded veiled threats. A Libyan newspaper has quoted a Koranic injunction against "slanderers" who will find that "those who would overthrow will be overthrown," and a leading Cairo columnist, possibly with Sadat's personal blessing, recently reminded Libya of "secret," and by implication subversive, organizations previously established in Arab countries by President Nasir.

Sadat and Qadhafi have previously demonstrated a capacity for sustaining a high level of verbal warfare, and the latest exchange could be nothing more than another, more intense round. On the other hand, Sadat may have reached the end of his patience. Some reports have alleged that certain Egyptians may be attempting to undermine Qadhafi's position within Libya. If he is not prepared to go this far, Sadat may be heading, justifiably or not, for a break with Tripoli.

Although Libya has in the past been an important financial contributor to Egypt, Sadat would apparently not at this point be losing much if he did break with Qadhafi. The Libyans stopped ad hoc aid payments in 1972, and Qadhafi recently confirmed in a newspaper interview that he has now cut off Tripoli's annual \$59 million Khartoum subsidy payments. Aid pledges made in wartime, he said, have become "null and void" now that "the war is over" for Egypt.

PAKISTAN-FRANCE: ARMS BARGAINING

Paris has become an increasingly important supplier of sophisticated military equipment to

Pakistan. Peking's inability to provide more advanced weapons and restrictions on US arms sales caused Islamabad to turn to France, which has provided over \$200-million worth of arms since 1965. A number of major new deals are under negotiation, and these could double previous sales. Possible Arab financial assistance to Pakistan may facilitate agreement, which has been held up in part by French doubt about Pakistan's ability to pay.

In the negotiations now going on in Paris, France and Pakistan are nearing agreement on Crotale surface-to-air missiles, Breguet-Atlantic naval patrol aircraft, and additional Mirage jet fighters. The two countries are still far apart on the supply of submarines and on co-production arrangements for submarines and aircraft.

Most of the items being discussed were contained in a shopping list given to Paris in April 1972. Sale of the Mirages and Atlantics was approved by Paris in mid-1972, but negotiations dragged on

In mid-1973, during negotiations for Mirages, the Pakistanis added a request for the establishment in Pakistan of an assembly and manufacturing facility for the aircraft.

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Paris and Islamabad still are unable to reach agreement over payment terms for three additional Daphne-class submarines. Paris put off a request for the eventual establishment of submarine construction facilities in Pakistan. The obstacle to a deal for the Exocet ship-to-ship missile appears to be the high cost involved.

The possibility of Arab financial backing has brightened Islamabad's prospects for upgrading its domestic arms industry with French technology, but the production of submarines and fighter aircraft is an ambitious goal for a country that is not yet self-sufficient in small-arms production. Islamabad's limited industrial base and dearth of technical sophistication will keep it dependent on foreign sources for most of its military requirements.

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SOUTH AFRICA: NEW MANDATE

South Africa's all-white electorate gave Prime Minister Vorster a convincing mandate last week to go ahead with any measures he considers essential to maintain white supremacy.

The National Party, which has been in power since 1948, slightly increased its already large parliamentary majority in the general election held on April 24. In the new parliament, the Nationalists will have 122 seats, the United Party 41, and the Progressive Party 6.

On April 29, Vorster announced some changes in his cabinet, but kept ultraconservatives in the ministries of defense, labor, and Bantu affairs. The minimal reshuffle has dampened hopes of South African moderates that the Prime Minister would seize the opportunity of an election victory to take positive action in race relations, such as giving some bargaining power to black labor unions.

In parliament, Vorster will encounter more vigorous opposition than ever before. Helen Suzman, the sole Progressive MP since 1961, now has enough party colleagues to force a public vote on any issue that the Progressives choose to contest. Such tactics could be especially embarrassing for the United Party, which usually has sought to blur critical issues in order to hold together its ideologically diverse elements. Pre-election disarray in the United Party helped Progressive candidates to take over five former United Party seats, and now there is speculation that some members of its liberal wing may soon go over to the Progressives.

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ETHIOPIA: STILL IN FLUX

Instability continues in the absence of a clearly dominant center of power. The weakened Emperor and the insecure cabinet led by Prime Minister Endalkatchew are unable to impose their will on the military, which on one hand supports the government and on the other continues to act independently to back reform demands. The military may be moving toward a more active role in the government, but at present still appears unwilling to assume the burden of directly running the country.

Late last week, army and police units in Addis Ababa, acting under the direction of a military "coordinating committee," arrested 20 former ministers and senior civilian officials as well as a number of senior military officers. The Endalkatchew government's cautious handling of the former officials, all of whom were suspected of having profited from official corruption, has been a major source of friction with the moderate reformists who predominate within the security forces and who otherwise have generally supported the cabinet installed in March.

[REDACTED]

This week the military for the first time forced out of office a member of the current cabinet. On Tuesday, the government yielded to strong pressure from the army's Second Division based in Eritrea Province, for the removal of General Assefa Ayene from his post as minister of posts and telecommunications. Assefa, who was chief of staff under the former government, will remain in custody of the armed forces pending investigation of charges that he had tried to create dissension among military units and made plans for the air force to bomb Asmara during the initial military revolt last February. For a time, the Assefa issue threatened to lead to a potentially serious split between important military units; two other divisions opposed the demand for his ouster until the cabinet acquiesced.

The coordinating committee that moved against the ex-ministers appears to be one of a network of committees of moderate reformists that have been created independently in the various military units. The committees are only loosely associated; no one group has assumed over-all control and there seems to be no central planning. The committees attempt, however, to reach agreement on specific issues through ad hoc negotiations.

So far, these military moderates remain in general agreement on the desirability of preserving the present government. The coordinating committee in Addis Ababa, in announcing its arrest of the former ministers, made a point of declaring that the armed forces and police support the cabinet and Haile Selassie.

[REDACTED]

Moreover, the army and police are actively supporting the government's crackdown last week on strikes and demonstrations. On April 30, troops raided the telecommunications headquarters in Addis Ababa and arrested striking workers and some of their leaders. This action has apparently prompted striking bus drivers as well as telecommunications workers to return to work.

[REDACTED]

A spokesman for military and police units in Eritrea publicly pledged support for the cabinet and urged all strikers to return to work.

Nevertheless, there are indications that at least some moderates question the ability of the Endalkatchew cabinet to restore order and to proceed with promised reforms. As a result, the moderates may soon force out other ministers, and perhaps replace them with more reform-minded military colleagues.

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THE RELUCTANT COMRADES

For the past six months, the Soviets have been working patiently to convene a world communist party conference with the unstated but real purposes of closing up ideological ranks in a time of detente and of underlining the Soviet Union's leadership in the communist world. The evidence suggests that the Soviets have a lot more groundwork to attend to.

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An official [redacted] which opposes the idea of such a meeting, has recently stated that "several" other communist parties also oppose it. They fear—with justification—that Moscow intends to use the conference to denounce the Chinese and to impose a new orthodoxy on the international movement.

Statements in Moscow indicate that the Soviets are aware of the resistance to a world conference, but are still promoting it, though cautiously. In a speech on April 22 commemorating Lenin's birth, Soviet party secretary Ponomarev argued that although many of the problems raised at the last world communist conference in 1969 had been solved, new ones have arisen that call for "unity of action" and "collective efforts."

Ponomarev said the Soviet Communist Party is ready to join the efforts being made by other communist parties to strengthen the movement's "political and ideological cohesion." This ambiguous statement suggests that opposition is keeping the Soviets from openly committing themselves to a world conference in 1975 after a projected series of regional conclaves in late 1974. Most of these preparatory conferences have not moved much beyond the talking stage.

Moscow's surrogates in the campaign to win support for such a meeting, according to the Italians, include the Bulgarian, Czechoslovak, and Indian parties. Without the weight or authority of a direct Soviet proposal behind them, however, their activity on behalf of a conference has had little impact. [redacted]

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USSR - EASTERN EUROPE

to the developing countries is unknown, but it is clearly expanding. Last year, Moscow's Western banks agreed to join with other banks in financing transactions totaling \$1.2 billion in at least 21 developing nations. Soviet bank participation in each deal is small, however, and appears to run between \$1-5 million, which is the minimum participation required on most large syndicated loans.

The USSR has always established credit limits for each individual country, and in most cases its foreign-based banks have the option to accept or refuse business under them on the basis of conventional economic criteria.

SOVIET BANKS EXPAND SERVICES

Moscow's foreign banks based in London, Paris, Zurich, and Frankfurt are increasing their activities in less-developed countries. Although initially established to facilitate East-West trade, the banks also provide a full range of banking services. Last year, some 40 developing countries were using the credit facilities provided by these banks, and credit lines had increased to at least \$300 million, five times the limit in 1969.

From the developing countries' point of view, the Soviet banks—like other Western banks—are a growing source of hard-currency financing. The banks provide funds for trade expansion not tied to purchases of Communist goods and for short-term balance-of-payments support at commercial interest rates. The Soviet banks also participate with Western institutions in consortia to finance large, long-term undertakings in the developing countries.

The total extent of the participation by Soviet-owned banks in international consortia loans

Until recently, most of the known credits by the Soviet banks have been short-term instruments for financing trade, but the developing countries increasingly are drawing on them for other purposes. The trend also is in the direction of larger deals and diversification of commercial banking services, with more credits having longer repayment periods.

Moscow appears eager to pursue its growing banking business with the developing countries and is directing its banks to urge full use of credit lines. As their capital has grown, the banks are seeking new customers and have tried to expand their correspondent status with the central banks of the developing countries. Nevertheless, whatever the opportunities for growth and however competitive the banks become, their principal function still will be to facilitate East-West trade. To some extent, these claims on the banks' resources could limit the expansion of their dealings with the developing countries.

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VENEZUELA: ECONOMIC CHANGES

President Carlos Andres Perez announced sweeping economic changes this week, including the apparently imminent nationalization of the US-dominated iron-ore industry and the application of tough restrictions on foreign investment.

In a nationalistic speech to the Venezuelan Congress just before May Day, Perez proclaimed his intention to restructure the economy and to take over the Orinoco Mining Company, a subsidiary of US Steel, and Iron Mines of Venezuela, a subsidiary of Bethlehem Steel Corporation. These two companies do the bulk of Venezuela's iron-ore mining and export two thirds of their production to the US. Their 50-year concessions were not due to expire until the year 2000. Regarding nationalization, Perez did not give any details of how or when he would proceed, although he spoke of action "now." Presumably this matter will have to be studied at some length, as is being done in the case of the reversion of the petroleum concessions, to determine the structure of the industry after reversion and what role, if any, might be left to present concessionaires.

Equally distressing to US business interests was Perez' announcement of measures to implement the strict code of the Andean Pact. Perez said that his government will publish a list of industries providing domestic goods and services, and that these will be reserved to Venezuelans; foreign companies will have three years in which to sell a minimum of 80 percent of their shares to Venezuelans. Among the enterprises affected are chain stores operated by Sears Roebuck and the Rockefeller family interests. The transfer of control will be under the supervision of a new government agency, the "Superintendency of Foreign Investment."

Following through with the philosophy behind the iron-ore as well as the petroleum reversion—plans for which were not modified in the speech—Perez announced that he will order the cancellation of contracts providing for two new

aluminum plants that allow for only 25-percent participation by the Venezuelan state. The President also said that he will order the revision of a gold-mining contract with a German firm because "these mines belong to the Venezuelan miners by right of suffering."

The remainder of the President's speech was of more general interest to the average Venezuelan. Announcing a series of domestic measures broadly populist in tone—including a minimum-wage decree, fiscal reforms, and wage and salary increases—Perez was fulfilling campaign promises to improve the lot of the poorer classes and narrow the gap in income distribution. Citing the necessity for immediate action, Perez asked Congress for authority to proceed by decree to implement his program.

Perez' move against the iron industry was a shock to some foreign businessmen, who had perhaps become overly complacent after the election of a party traditionally friendly to foreign business. The president of the Orinoco company told the US ambassador that he did take some encouragement from the fact that Minister of Mines Hernandez assured him that the government did not contemplate abrupt action. Nevertheless, he commented that canceling important contracts involving US aluminum companies would certainly have an unfavorable impact in world financial circles and could cause the injured parties to try to attach Venezuelan assets abroad in reprisal.

Although the Perez government has decreed its goal, implementation could still leave room for meaningful participation by foreign companies. While the country has ample financial resources, especially since the rise in oil revenues, it lacks the technological know-how that major industrial countries could provide.

With a massive election mandate for moderate change, Perez took office on March 12

under no significant pressure from nationalist or leftist groups to move against US-dominated industries other than oil. His latest moves in the economic field demonstrate his determination to develop substantial momentum early in his five-year term in attacking Venezuela's problems.

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COSTA RICA: ROUGH SLEDDING AHEAD

Daniel Oduber of the incumbent National Liberation Party will be inaugurated as president of Costa Rica on May 8. Although he is a skilled administrator and negotiator, Oduber will probably be performing the most delicate balancing act of his career over the next four years. His



Oduber

party did not win a majority in the legislature, and he will therefore have to bargain with some of the smaller parties for the support he needs for his legislative program. He will also have to retain the good will of outgoing President Figueres, to whom many members of the party are personally loyal.

The price of Figueres' good will and the amount of power he will retain within the party have been evident since the election. "Don Pepe," refusing to act like a lame duck, was instrumental in railroading two controversial bills through the assembly. Before the furor over one of these—the extradition bill—had died down, Figueres introduced four more. One of the latter, an education bill, caused a national teachers' strike. Another, which levied an advertising tax aimed at the opposition newspaper, *La Nacion*, caused an unprecedented boycott of the assembly by opposition deputies and a few from Figueres' own party. The walkout paralyzed the legislature by denying it a quorum.

Meanwhile, Figueres departed on state visits to Romania and Yugoslavia, leaving Vice President Jorge Rossi to keep the lid on things. With Figueres out of the way, Rossi worked out a face-saving compromise with the teachers whereby they would return to work, and the government would hold the education bill for the new assembly. Oduber has apparently worked out a similar agreement with the deputies on the advertising tax bill so that a quorum can be rounded up for consideration of the two remaining and more important bills—the family assistance package and a bill to equalize the official and unofficial exchange rates.

The Costa Rican legislature, unlike those in some other Latin American countries, has never been a docile instrument of the executive, and the high-handed tactics of Figueres' last few months in office may have stiffened its resistance to executive pressure even more. Oduber takes the reins next week, facing an opposition majority and an outraged public. If his administration is to accomplish anything, he will have to prove responsive to public opinion. Beyond this, he will need to use all of his diplomatic skills.

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BRAZIL: PURSUES THE CHINESE MARKET

Brazil is striving to increase trade with China, but Peking will require formal recognition as the price for a major trade agreement. A 14-member trade mission, sponsored by Brazilian exporters, visited Peking last month to promote sales of Brazilian goods. While similar groups have visited China in the past, this is the first time Brasilia has sent government representatives. Peking, responding to a Brazilian invitation, will send a trade mission to Brazil in August.

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The decision to send officials to Peking followed a meeting between the Brazilian and Chinese ambassadors in Moscow, in which the Chinese representative stressed a desire to establish diplomatic relations as well as commercial ties. The pragmatic Brazilians may indeed be willing to discuss diplomatic ties.

Past trade relations between Brazil and China have been sporadic and largely indirect. Until recently, the Chinese bought Brazilian sugar through international brokers in London. Except for 1971, the trade balance has been heavily in Brazil's favor. Brazil has sold sugar, cotton, and coffee to China, but has imported only small amounts of chemical products.

Brazil is chiefly concerned with exploiting the large Chinese market. China is mainly interested in a long-term contract for sugar and could become Brazil's number-one market, replacing the US and the USSR. In any case, trade undoubtedly will still strongly favor the Brazilians. Peking seems to be willing to go along with

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this arrangement but will insist that full diplomatic recognition, coupled with a break with Taiwan, is the price Brazil will have to pay.

be financed by voluntary contributions, for states most seriously affected by oil price increases.

All nations at the session agreed on the need for an immediate aid program, but there was a dearth of proposals or commitments, especially from the oil-rich developing states. The developing countries softened some of the more radical provisions of the original resolutions in order to get developed-country support for an aid proposal. Under the consensus plan, contributors are to pledge funds to the program by June 15, and the scheme will become operational next January.

UN: SPECIAL SESSION ON RESOURCES

The UN General Assembly on raw materials and development, which adjourned May 2, adopted a controversial plan for "a new world economic order" despite strong objections from the US and somewhat milder protests from other Western industrialized nations. The plan was adopted by consensus without a formal vote, although the developed states—including the US, Canada, West Germany, and France—voiced strong reservations.

The resolutions endorse unrestricted nationalization of resources, producer cartels, and the linking of prices of raw materials that the developing countries export to those of manufactured goods exported from developed states. The plan also includes an immediate aid program, to

The General Assembly decided to forward to the Economic and Social Council proposed resolutions for long-range assistance to developing states and for rationalization of the world resource problem. Among these are the US proposal to establish a group of eminent persons to study natural resources, a French plan for a UN economic monitoring group, and a joint Sri Lanka - New Zealand proposition for emergency measures to supply fertilizer and pesticides to needy countries. In the Economic and Social Council's deliberations, which will continue until mid-May, the developed countries will presumably try to minimize the political rhetoric that characterized the General Assembly and find specific immediate measures as well as long-range solutions to the problems of poor nations and raw resources.

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